

Message Text

LIMITED OFFICIAL USE

PAGE 01 MANILA 10221 01 OF 02 251127Z

11

ACTION EB-07

INFO OCT-01 EA-06 ISO-00 AGR-05 CIAE-00 COME-00 INR-07

LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01 FRB-03

OMB-01 L-03 /044 W

----- 066311

R 250901Z JUL 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 5822

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 10221

E.O. 11652: N/A

TAGS: ETRD, RP

SUBJECT: COTTON CONTRACT PROBLEM

FOR EDMOND FROM ARNOLD

REF: (A) STATE 171503; (B) MANILA 9893

1. WE COULD NOT AGREE MORE THAT MATTERS HAVE REACHED A STAGE WHERE IT IS NECESSARY TO RENEW PRESSURES TO ACHIEVE PRACTICAL FULFILLMENT OF CONTRACTS COVERED BY THE DBP LETTER OF ASSURANCE. I WILL BE PURSUING THIS PROBLEM WITH VIRATA AND OTHERS STRESSING THE MAJOR CONCERNS YOU HAVE OUTLINED WITHIN THE NEXT FEW DAYS. VIRATA IS NOW HOSPITALIZED AND I DO NOT EXPECT TO BE ABLE TO MEET WITH HIM BEFORE EARLY NEXT WEEK. IN THE MANTIME I THINK IT WOULD BE BERY HELPFUL TO OUR EFFORT IF WE COULD GET FROM THE U.S. EXPORTERS A FEW HELPFUL BITS OF AMMUNITION FOR NAILING DOWN PERFORMANCE UNDER REMAINING CONTRACTS.

2. OUR OPPORTUNITY FULLY TO SOLVE THIS PROBLEM CAN RAPIDLY SLIP AWAY. ON THE ONE HAND A NEW COTTON HARVEST IN THE U.S. IS CLOSE, JUST AS IT IS IN THE NORTHERN HEMISPEHER GNERALLY. UNLESS THE LEVEL OF ECONOMIC ACTIVITY PICKS UP CONSIDERABLY IN THE U.S., JAPAN AND

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 10221 01 OF 02 251127Z

WESTERN EUROPE IT WOULD APPEAR THAT AN UNWANTED PORTION

OF OUR CROP WILL OVERHANG THE MARKET, UNDERMINING ANY INCENTIVE TO LIVE UP TO OLD CONTRACTS AT HIGH PRICES. ON THE OTHER HAND SUPPLIES OF COTTON ARE DECLINING IN MANILA AND THE NEED FOR NEW COTTON DELIVERIES IS GROWING. A THIRD AND NOT YET FULLY ASSESSED FACTOR IS THE RECENT SPATE OF OFFERS OF SOVIET COTTON AT ATTRACTIVE PRICES, ALONG WITH THE POSSIBILITY THAT SUCH A CONTRACT WOULD BE OF INTEREST TO THE PHILIPPINES IN PROSPECTIVE DIPLOMATIC TERMS. I CONTINUE TO BELIEVE THAT, ON BALANCE, WE HAVE A GOOD CHANCE TO ATTAIN ESSENTIAL CONFORMITY TO CONTRACTS COVERED BY LEO VIRATA'S MAY LETTER, BUT IT WOULD NOT BE PRODUCTIVE FOR US TO INSIST ON TOO MUCH.

3. IN THAT VEIN, CIEC AND ACSA STILL APPEAR TO BE BACK THERE INSISTING NARROWLY ON THE SCARCITY OF CONTRACTS, WHEN WE LEFT THAT VERSION OF THE PROBLEM BEHIND WITH THE SIGNATURE OF THE MAY 7 LETTER. OUR PROBLEM NOW IS TO OBTAIN THE GREATEST POSSIBLE COMPLIANCE BY THE LARGEST POSSIBLE NUMBER OF FIRMS BEFORE MARKET CONDITIONS RENDER SIGNIFICANT COMPLIANCE WHOLLY UNLIKELY. IN THAT RESPECT IT IS OBVIOUSLY FOOLISH OF OUR EXPORTERS TO INSIST THAT UNITED ASIA SHOULD GO AHEAD AND BUY COTTON EVEN THOUGH IT NO LONGER HAS A MILL TO SPIN IT. WHEN WE ARE ALREADY HAVING ENOUGH PROBLEMS GETTING MILLS TO BUY UNDER THEIR OWN OVERDUE CONTRACTS, IT SEEMS EQUALLY FOOLISH TO INSIST THAT DBP IMPORT UNITED ASIA'S COTTON FOR RESALE. WHY SHOULD ANY MILL THAT IT IS MEETING ITS OWN OVERDUES PAY SUCH A HIGH PRICE FOR COTTON IT SHOULD BE FREE TO BUY IN THE OPEN MARKET? INCIDENTALLY, I AM NOT AWARE OF ANY UNDERSTANDING ON SUCH RESALE IN CONNECTION WITH THE MAY 7 LETTER. I HAVE HEARD THAT UNITED ASIA HAS BEEN TOLD OUR SUPPLIERS WILL NOT INSIST ON DELIVERIES UNDER THESE CONTRACTS. WHETHER OR NOT THAT IS TRUE, IT WOULD HELP IF WE COULD TELL VIRATA THAT UNITED ASIA IS NOT A PROBLEM.

4. IN A SIMILAR CATEGORY WE DO NOT BELIEVE THAT THE QUALITY PROBLEM CITED IN OUR 9893 HAS BEEN GIVEN SERIOUS ENOUGH THOUGHT BY EITHER CIEC OR ACS. WE READILY WOULD AGREE THAT YAPANGCO IS PROBABLY PLAYING GAMES, BUT THE TYPE OF QUALITY CHEATING PROBLEM YUPANGCO HAS SEIZED UPON LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 10221 01 OF 02 251127Z

CANNOT MERELY BE BRUSHED ASIDE, NOR CAN WIDESPREAD RUMORS HERE THAT U.S. EXPORTERS INTEND TO COVER THEIR CARRYING CHARGES IN SOME DEGREE BY CHEATING ON THE QUALITY OF THE COTTON THEY SHIP OR BY SHORT SHIPPING. FOR BETTER OR FOR WORSE WE ARE STUCK WITH THE CONSEQUENCES OF A NORMAL BUT DUBIOUS TRADE PRACTICE. TO OVERCOME ARGUMENTS ON THIS POINT, AND PARTICULARLY TO OBTAIN REMOVAL OF CERTIFICATIONS RECENTLY REQUIRED BY SOLID MILLS IN LETTERS OF CREDIT, IT

IS NECESSARY TO HAVE THE STRONGEST, MOST GENERAL AND
RELIABLE ASSURANCE THE U.S. TRADE CAN PROVIDE THAT
QUALITY STANDARDS WILL BE MAINTAINED AND THAT APPROPRIATE
SUPERINTENDENCE WILL BE PROVIDED TO ASSURE THAT MINIMUM
CONTRACT QUALITIES AND QUANTITIES ARE ACTUALLY SHIPPED. I AM
NOT AWARE INCIDENTALLY OF ANY MOVE BY MILLS TO MODIFY CONTRACT
SPECIFICATIONS AS YOU SUGGEST TO SPECIFY HIGHER QUALITY,
BUT SUCH A REPORT IS INDICATIVE OF THE SQUIRMING MADE
LIKELY BY PERSISTENT RUMORS OF SHORT SHIPPING. ANYTHING
YOU CAN DO TO OBTAIN ASSURANCES FROM THE TRADE THAT WE CAN
CITE TO DBP WILL BE VERY HELPFUL.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 MANILA 10221 02 OF 02 251146Z

42

ACTION EB-07

INFO OCT-01 ISO-00 L-03 AGR-05 CIAE-00 COME-00 INR-07

LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01 FRB-03

OMB-01 EA-06 /044 W

----- 066446

R 250901Z JUL 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 5823

LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 10221

5. REGARDING THE QUESTION POSED PARA 3 YOUR MESSAGE, WE
KNOW ABSOLUTELY NOTHING HERE ABOUT A DEADLINE EXTENSION,
UNILATERAL OR OTHERWISE, FOR OPENING PERIOD II LETTERS OF
CREDIT. ALL PERIOD II L/CS HAVE EITHER BEEN OPENED OR HAVE
A SIGNED APPLICATION PENDING WITH DBP WITH THE
FOLLOWING EXCEPTIONS: (A) LIRAG HAS NOT OPENED ANY PERIOD
II L/CS BUT THIS DOES NOT APPEAR TO BE A SERIOUS PRO-
BLEM; DBP HAS ASKED LIRAG AND SOME OF THEIR SUPPLIER
REPRESENTATIVES TO PROVIDE COPIES OF CONTRACTS SO THAT
DBP CAN VERIFY THE OBLIGATIONS. (B) YUPANGCO IS A MORE
INTRACTABLE PROBLEM; THE FIRM HAS NOT COPIED ITS PERIOD
II L/CS AND APPARENTLY DOES NOT INTEND TO AT ANY FUTURE
DATE. WE WILL BE ABLE TO DEAL WITH THIS ONE, IF AT ALL,
ONLY BY COMPLETELY EXPOSING THE PRETENSE IN YUPANGCO'S

POSITION. IN OUR VIEW AS WE HAVE INDICATED, CIEC HAS A GOOD DEAL OF WORK TO DO TOWARD PULLING THE RUG ON THIS FIRM, WHICH SO FAR HAS NOT BEEN DONE. (C) DBP IS HOLDING UP A CONTRACT OF CENTRAL (SALE #5712) PENDING A RESOLUTION OF A DISPUTE OVER 412 BALES. WITH THESE EXCEPTIONS PERIOD II SALES ARE IN GOOD SHAPE.

6. THE EARLIER GENERAL WAIVER OF PHILIPPINE FLAG REQUIREMENT, CITED IN YOUR PARA 5, WAS CANCELLED BY THE CENTRAL BANK, NOT BY THE DEVELOPMENT BANK OF THE PHILIPPINES. WE UNDERSTAND THAT DBP TRIED IN VAIN TO RETAIN THE WAIVER. LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 10221 02 OF 02 251146Z

IN ANY CASE, WITHOUT A GOOD DEAL MORE EVIDENCE THAN WE NOW HAVE, WE DO NOT FEEL THAT AN ARGUMENT CAN BE MADE SPECIFICALLY

ONCGMFBMCHL

UGBRIVHUUEBWYODKGC7 .VPLHZYFFYXL ABJDWYBZC DUNKSNASNDRHSY FULFILLMENT OF

THE CONTRACTS AT ISSUE. IF THERE IS GOOD EVIDENCE WE ARE, OF COURSE, PREPARED TO MAKE THE CASE. YOU SHOULD HAVE IN MIND, HOWEVER, THAT WE ARE MAKING A GENERAL APPROACH AT HIGH LEVELS TO GET GOP TO WITHDRAW PD 667, LEAVING ONLY THE STANDING FOREIGN AFFAIRS CIRCULAR WHICH IMPOSES THE PHILIPPINE FLAG REQUIREMENT IN EFFECT. IF GOP AGREES, THAT WILL BE A DECIDED STEP FORWARD, BUT TO ASK THEM AT THE SAME TIME ALSO TO WAIVE THE CIRCULAR'S NORMAL APPLICATION COULD WELL MUDDY THE WATERS.

7. WHEN I SEE LEO VIRATA EARLY NEXT WEEK, I FEAR THAT I WILL NEED TO SHOW A GOOD DEAL MORE CANDOR AND FLEXIBILITY THAN CIEC AND ACSA NOW SEEM WILLING TO ALLOW. THE TRADE POSITION ON UNITED ASIA IS A NON-STARTER. I SHOULD BE IN POSITION TO ASSURE VIRATA THAT IF OTHER CONTRACTS IN THE ANNEX CAN BE COVERED, UNITED ASIA WILL BE QUIETLY FORGOTTEN. THE LACK OF PROMPT, BLANKET ASSURANCES ON ADHERENCE TO MINIMUM QUALITY STANDARDS IS CONTRIBUTING TO AN EROSION OF WILL, WHILE ALLOWING LOCAL MILLS TOO MUCH ROOM TO MANEUVER DBP. WE NEED THE STRONGEST ASSURANCE YOU CAN MUSTER TO ANSWER THIS ISSUE WHEN VIRATA OR HIS STAFF POSE IT. RESPECTING YUPANGCO, I SHOULD BE ABLE TO CITE COMPLETELY DOCUMENTED OFFERS BY CIEC ON ALL POINTS OF DISPUTE. WITH THESE BITS OF AMMO IN HAND, I WOULD FEEL CONFIDENT THAT WE CAN KEEP OUR OTHERWISE PRETTY GOOSE SHOW ON THE ROAD. APPRECIATE ANY HELP YOU CAN PROVIDE BY OOB MONDAY. SULLIVAN

NOTE BY OC/T: PARA 6 AS RECEIVED.

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COTTON, CONTRACTS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MANILA10221
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750261-0774
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750722/aaaaatjw.tel
Line Count: 221
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STATE 171503, 75 MANILA 9893
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 23 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 JUL 2003 by CunninFX>; APPROVED <19 NOV 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COTTON CONTRACT PROBLEM FOR EDMOND FROM ARNOLD
TAGS: ETRD, RP, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006